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June 10, 2003

The Honorable William M. Thomas
Chairman
House Committee on Ways and Means
1102 Rayburn HOB
Washington, D.C. 20510

Dear Mr. Chairman:

The nation's Governors are very appreciative of the fiscal relief package that was enacted as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. We are hopeful that this aid will substantially limit the need for budget cuts and tax increases over the next two years.

As you prepare for markup on Medicare reform including a prescription drug benefit, we ask that you also consider the dual eligible problem. Long-run Medicaid reform remains our number one priority. The nation's Governors see this as a two-step process. First, the federal government needs to recognize its responsibility for the Medicare/Medicaid dually eligible individuals. These benefits seem to be more appropriately funded by Medicare as opposed to Medicaid. Second, comprehensive reform would provide states with more flexibility and options to both reduce the state and federal costs of Medicaid, as well as to enhance the quality of health care for all.

With respect to the dual eligible populations there are three major reasons why they need to become a federal responsibility.

Federalism – In general, the federal government has accepted the responsibility for programs that target individuals over 65. This is demonstrated by the fact that the two largest federal programs, Social Security and Medicare, are programs that are 100 percent funded and administered by the federal government. On the other hand, state governments in general have the responsibility for low-income non-elderly and working Americans given that they administer job training, education, welfare, and other social service programs, even if the federal government partially funds these programs. This rational division of responsibilities breaks down, however, with the Medicaid dual eligible population. Having the federal government take over responsibility for the dual eligibles would enhance the performance and accountability of government since the overlapping and sometimes conflicting responsibility between federal and state governments would be dramatically reduced. Citizens would then be able to hold the appropriate level of government accountable for performance.

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Quality of Care – Although states pay a significant portion of the cost of dual eligibles, they have no role in coordinating services. In general, services requiring long-term care also need a significant amount of acute care. Yet, our health care system focuses on addressing specific service needs and does a poor job of addressing the interaction of acute and chronic needs. This fragmentation of care and lack of accountability for health outcomes contributes to higher rates of preventable hospitalization and nursing facility admissions. Ultimately, poor clinical outcomes and service decisions that are reimbursement driven lead to higher expenses for both Medicare and Medicaid and lower quality of care for many individuals.

Fiscal Burden – Overall, state governments no longer have the fiscal capacity to fund both education and health care. If the dual eligible populations continue to be a joint responsibility, states will be forced to cut the optional benefits and populations – mostly women and children – which are a key investment in the future. Even with economic recovery states will continue to struggle with this long-run fiscal situation.

The nation's Governors are very supportive of the approach that you incorporated into the Medicare drug bill that was adopted by the House of Representatives last year. The provision increased the state match to 100 percent for the drug benefit over a number of years. This would allow the states to continue their efficient administration of the program. We would also appreciate consideration of beginning the transition on co-payments, premiums, and deductibles, and long-term care with longer transitions.

In addition, to recognize the vital role that states have played in providing prescription drugs to seniors, any state that operates a drug assistance program should be allowed to maintain enrollment in that program and receive a direct subsidy from the federal government. This would save seniors from having to disenroll from a program that they know and trust, and to be re-enrolled once the federal benefit runs out. This would not entail any greater federal expenditure, as the subsidy to states would be exactly the same as the cost of the benefit.

We look forward to working with you on this critical Medicare/Medicaid reform issue.

Sincerely,

Governor Paul E. Patton
Chairman

Governor Dirk Kempthorne
Vice Chairman